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Brazil beyond Lula

Forging Ahead or Pausing for Breath?

by
Lecio Morais and Alfredo Saad-Filho

A review of the achievements of the Lula administration and an examination of the contrasting political and social programs that disputed the Brazilian presidential elections in October 2010 reveal that there has been significant progress toward the consolidation of a social democratic welfare state in Brazil and that further progress is possible but far from guaranteed under the new administration.

Keywords: *Brazil, Elections, Lula, Dilma Rousseff, Neoliberalism*

The Brazilian presidential elections in October 2010 ostensibly posited a choice between the independent diplomacy and the moderately redistributive policies implemented in Lula's second administration (2007–2010) and a return to the rigidly neoliberal policies imposed by his predecessor, Fernando Henrique Cardoso (1995–2002). This contrast is not strictly accurate, because Lula's first administration (2003–2006) maintained the macroeconomic policy framework inherited from its predecessor. Although there was an important policy shift in Lula's second administration, continuities remained, especially around the inflation-targeting framework managed by the country's Central Bank. More significant, the elections counterposed two incompatible political alliances representing opposing views of citizenship and sharply distinct development projects.

This article reviews Lula's administration, highlighting the significance of its achievements from the point of view of the left (on his election and first administration, see Mollo and Saad-Filho, 2006; Morais and Saad-Filho, 2003; 2005; and Saad-Filho, 2003; 2007). It focuses on this administration's implementation of "neo-developmentalist" policies and the gradual (re-)emergence of elements of a welfare state in Brazil—the articulation of a "national" capitalism driven by an alliance between the "national" bourgeoisie,[1] the popular organizations, the informal and rural sector workers, and the state. The authors argue that the left should promote the extension and radicalization of this project. This position is elaborated in six sections. This introduction is the first. The second and third survey Lula's two administrations, highlighting the implications of the economic policy shift that took place in 2007. The fourth examines the social and political changes in the Brazilian state and the incremental democratization of a deeply elitist society. The fifth reviews the 2010

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LATIN AMERICAN PERSPECTIVES, Issue 177, Vol. 38 No. 2, March 2011 31-44
DOI: 10.1177/0094582X10395890
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elections. The conclusion summarizes the argument and outlines some of the key challenges facing the new administration.

THE FIRST LULA ADMINISTRATION

In earlier publications, we have argued that Lula was elected by a *losers' alliance*, a coalition of social groups that had been penalized by Cardoso's project of subordinated internationalization and financialization of the economy. This alliance included, first, the unionized urban and rural working class, especially the skilled and semiskilled manual and office workers, the middle and lower ranks of the civil service, sections of the professional middle class, and many informal but relatively secure workers. They had been the main sources of support for the Partido dos Trabalhadores (Workers' Party—PT) and historically defended a nationalist, redistributive, and expansionary economic strategy. Second, it included large segments of the unorganized and unskilled working class, among them many informal and unemployed workers of the metropolitan peripheries. They supported Lula in 2002 because of his perceived commitment to redistribution through welfare provision and, conjuncturally, because of the PT's alliance with part of the Catholic hierarchy and several evangelical churches, which are influential among this segment of the working class (see Singer, 2009). Third, most national capitalists had been disappointed by the failure of Cardoso's neoliberal growth strategy and were exhausted by the prolonged stagnation of the Brazilian economy, the onslaught of transnational capital, and the pressure of cheap imports after the liberalization of trade and finance in the early 1990s. This group demanded state support to improve its competitive position.[2] Fourth, several right-wing oligarchs and local politicians supported Lula because they expected the PT to be sensitive to the plight of Brazil's poorer regions and therefore to transfer more resources to them.

Lula's commitment to "change with stability" became critically important in the run-up to the elections, when the country was battered by severe financial and balance-of-payments turbulence, reinforcing the perception that his administration was vulnerable and that it was imperative to stick to economic orthodoxy. In addition to this, the fragmentation of the Brazilian political system requires the construction of complex alliances in order to pass legislation. Since the "core" left-wing parties in Lula's coalition controlled less than one-third of Congress, a legislative majority required the search for an "outer circle" of (unreliable) allies.[3] Finally, the executive could never rely on the judicial system, which is often as conservative as it is corrupt.

At the start of his administration, Lula tightened up the "core" macroeconomic policies introduced by the previous administration, including inflation targeting, Central Bank independence, large fiscal surpluses, free capital mobility, and flexible exchange rates. The government maintained the existing support for export-oriented agribusinesses, although subsidies were also made available to family agriculture and welfare programs were expanded. No privatizations were reversed, and progress on land reform was extremely slow.[4] In pursuit of the Holy Grail of Brazilian diplomacy, permanent membership in the UN Security Council, Brazil agreed to a U.S. request to lead the UN stabilization mission in Haiti.

Lula's government disarticulated the Brazilian left in two ways. First, since the foundation of the PT in the early 1980s, no political party has been able to prosper to the left of it; the PT brought together hundreds of thousands of militants and the leadership of the most militant social organizations (see Branford and Kucinski, 1995; 2003). Thus, the government never had to confront a significant left opposition except within the PT, and these dissidents were dealt with administratively. Most abandoned the party in the wake of the 2005 political crisis (see below), migrating to the new Partido do Socialismo e Liberdade (Party of Socialism and Freedom—PSOL) or joining other small radical organizations, and many abandoned politics altogether. In this sense, Lula's election marked the end of an era for the Brazilian left and the failure of the world's first post–social-democratic and post-Leninist mass party (see Saad-Filho, 2007).

Second, the Brazilian president can influence the appointment of thousands of civil servants at all levels of the administration. Lula's appointments brought into the state hundreds of progressive political, trade union, and nongovernmental organization (NGO) cadres, creating what was described as the "capture" or the "nationalization" of the social movements (with the significant exception of the Movimento dos Trabalhadores Sem Terra [Landless Peasants' Movement—MST]) (see Oliveira, 2006). For this reason, too, the organized left was unable to pressure the government to break with neoliberalism.

Within two years the administration found itself in a political cul-de-sac. The disarticulation of the left and Lula's isolation from his traditional supporters forced the government to rely upon the unorganized workers, the national capitalists, and the regional oligarchy, but their support was always conditional upon the performance of the economy (to satisfy their self-interested demands for markets and profits and to generate the resources for transfers and handouts). Unfortunately for the government, its orthodox policies failed to catalyze sufficient private (domestic and foreign) investment. Growth of the gross domestic product (GDP) was patchy (see Table 1), and most social and employment indicators either stagnated or deteriorated.[5]

The administration soon had to face another challenge. Realizing its vulnerability and aware of Lula's bid for reelection in 2006, sections of the bourgeoisie aligned with Cardoso's neoliberal strategy launched a vicious attack in mid-2005, focusing on the PT's regular "purchase" of votes in Congress (the grotesque *escândalo do mensalão*). The media pursued these stories relentlessly, eventually claiming the scalps of two prominent ministers (including Lula's likely successor), the president and the treasurer of the PT, and several cadres of the administration. The tide of sleaze came close to bringing down the government. Space limitations prevent a detailed analysis here, but the scandal showed, first, that many PT cadres were amateurs, compared with the more experienced politicians in rival parties (one activist was apprehended when an airport X-ray machine revealed wads of cash stuffed in his underwear). Second, these scandals were not minor, but they were easily trumped in magnitude by those of the previous administration, which were never scrutinized by the press or the justice system with similar rigor. Third, the scandals rarely involved cases of illicit enrichment; corruption was mostly for the benefit of the PT and the government, suggesting that it may be impossible to run a competitive party and govern a fragmented neoliberal democracy without resorting to shady funding practices. At the peak of the scandal, Lula found

TABLE 1
Basic Macroeconomic Variables

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010**
GDP (US$bn)	6,918	6,907	6,991	6,974	7,276	7,413	7,616	7,990	8,313	8,217	8,671
GDP per capita (2009 US$)	6,900	6,910	6,990	6,970	7,280	7,410	7,620	7,990	8,310	8,220	8,670
GDP growth (real per capita, %)	2.8	–0.2	1.2	–0.2	4.3	1.9	2.7	4.9	4.0	–1.2	5.5
Inflation rate (CPI, %)	6.0	7.7	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.3	5.3
Domestic public debt (% GDP)	45.5	48.4	50.5	52.4	47.0	46.5	44.0	41.0	38.4	42.8	41.4
Real interest rate (annual average)	10.1	8.4	3.8	15.8	8.8	14.3	11.1	5.9	7.2	4.8	4.9

*estimate.
Sources: Monthly bulletins and Press Notes of the Central Bank of Brazil (http:// www.bcb.gov.br) and Ipeadata (http://www.ipeadata.gov.br).

that his government could not count on the support of the (dis)organized left or rely on the oligarchy. He retreated to the poor urban peripheries and the Northeast region, where the government's social programs made him popular (see Marques et al., 2009), and renewed his commitment to domestic capital, which never failed to support his administration.

THE POLICY SHIFT

Despite the damage wrought by the *mensalão*, Lula fought a vigorous reelection campaign and trounced his main rival, Geraldo Alckmin, from Cardoso's Partido Social Democrático Brasileiro (Brazilian Social Democratic Party–PSDB), by 61–39 percent of the vote in the second round of the 2006 elections. Lula recomposed his top team and announced, at his second inauguration, the realignment of his administration (see Boito, 2010). This policy shift expressed, in part, Lula's frustration with the inability of orthodox policies to deliver growth; most recently, the Central Bank had raised interest rates in response to the threat of inflation in 2004, and this had sharply reduced GDP growth in the following year. Sluggish economic performance was incompatible with the political stabilization of Lula's government. The policy shift also responded to the imperative to reconstitute the administration's base of political support, given its isolation from the organized left, most of the political elite, the more internationalized fractions of capital, and the middle classes.[6] The government introduced a strategy of "national economic development" and appointed heterodox economists and nationalist diplomats to the Ministry of Finance, the Secretariat of Strategic Affairs, the Institute of Applied Economic Research, and the National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social—BNDES), which has become the largest development bank in the world.[7] The Central Bank remained untouched

because it was politically impossible to restrict its independence or change the inflation-targeting regime. Despite their inability to control monetary or exchange rate policy, the neo-developmentalists were successful in implementing activist and redistributive fiscal and financial policies, aiming to maintain high international reserves, raise aggregate demand, redistribute income, expand consumer credit for the poor, and provide subsidized credit for productive investment in Brazil as well as in new ventures abroad. These policies have been able to temper the Central Bank's orthodoxy.

At the end of 2005, Brazil repaid ahead of time the US$23.3 billion Cardoso-era International Monetary Fund loan that had helped it to weather the 2002 balance-of-payments crisis and that signaled Lula's continuing commitment to neoliberal policies.[8] Early in 2007, the government introduced a "growth acceleration program" focusing on infrastructure, transport, and energy that expanded public investment from 0.4 to 0.7 percent of GDP within a year (Barbosa and Souza, 2010: 15). These initiatives were supported by expanded investment by the state-owned enterprises, especially Petrobras, the oil conglomerate. The state-owned banks (BNDES, Banco do Brasil, and Caixa Economica Federal) vigorously expanded their credit lines for investment, house construction, and consumption, while private "national champions" were supported by the federal government with subsidized credit, preferential contracts, and share purchases by the state-owned banks and pension funds, and their expansion abroad was actively promoted by the state. These policies were opposed by the PSDB, but they helped to raise the country's investment rate from 15.9 percent of GDP in 2005 to 19.0 percent in 2008. The growth of global liquidity and demand during that period supported the expansion of Brazil's foreign trade and contributed to the increase of inward as well as outward investment flows. The latter, in turn, led to the rapid transnationalization of Brazilian capital, which was actively supported by the country's new diplomacy. The international reserves grew rapidly, helping to stabilize the exchange rate and dislocate the threat of balance-of-payment crises (see Table 2). Since this policy shift, the Brazilian economy has been growing strongly (despite a "dip" after the global crisis), breaking with the pattern of low growth since 1981.

Having secured the alliance with "domestic" capital and renewed its commitment to the organized workers and civil servants (the latter through higher wages and the targeted expansion of the bureaucracy), the administration extended social provision in three ways: first, through the growth of its social programs, especially Bolsa Família, which currently reaches 11.4 million households; second, through the expansion of social security coverage, which rose from 45 percent of the workforce in 2002 to 51 percent in 2010;[9] and third, through a rapid (real) increase of the minimum wage by 67 percent between 2003 and 2010 (real GDP rose by 37 percent in this period). The higher minimum wage raised the floor of the labor market and triggered a simultaneous increase of federal transfers to pensioners, the unemployed, and the disabled.

Larger public-sector investment and expanded social provision did not destabilize public finances because the expansion of public-sector activity was largely funded by the additional tax revenues and social security contributions that resulted from faster economic growth and the formalization of the labor market. The primary fiscal surplus fell only by 0.2 percent of GDP, to

TABLE 2
Balance of Payments (US$ billion)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010**
Exports	55.1	58.2	60.4	73.1	96.5	118.3	137.8	160.6	197.9	153.0	144.9
Imports	55.8	55.6	47.2	48.3	62.8	73.6	91.4	120.6	173.1	127.7	132.6
Trade balance	–0.7	2.6	13.1	24.8	33.6	44.7	46.5	40	24.8	25.3	12.8
Current account	–24.2	–23.2	–7.7	4.7	11.7	14.0	13.6	1.6	–28.2	–24.3	–35.1
Foreign direct investment	32.8	22.5	16.6	10.1	18.2	15.2	18.8	34.6	45.1	25.9	22.6
Brazilian FDI	–2.3	2.3	–2.5	–0.2	–9.5	–2.5	–28.2	–7.1	–20.4	10.1	– 5.6
Portfolio flows (net)	7.0	0.1	–5.1	5.3	–4.8	4.9	9.6	48.4	1.1	50.3	43.0
Balance of payments	–24.2	–23.2	–7.6	4.2	11.7	14	13.6	1.6	–28.2	46.7	34.5
Foreign debt	216.9	209.9	210.7	214.9	201.4	169.5	172.6	193.2	198.3	198.2	243.8
Foreign debt/GDP (%)	36.0	41.1	46.7	38.8	30.3	19.2	16.1	14.7	12.1	12.3	12.7
International reserves	33.0	35.9	37.8	49.3	52.9	53.8	85.9	180.3	206.8	239.1	275.2
International reserves/ GDP (%)	5.5	7.0	8.4	8.9	8.0	6.1	8.0	13.7	12.6	14.8	14.3
Exchange rate (R$/ US$, average)	1.83	2.35	2.93	3.07	2.92	2.43	2.18	1.95	1.84	1.99	1.77

*estimate.
Sources: Monthly bulletins and Press Notes of the Central Bank of Brazil (http://www.bcb.gov.br) and Ipeadata (http://www.ipeadata.gov.br).

2.3 percent, between 2003–2005 and 2006–2008. Fiscal activism, higher minimum wages, and the expansion of domestic credit and social provision helped to create a virtuous circle of growth supported by domestic investment and mass consumption. Employment growth in the metropolitan areas increased from 156,000 jobs per year during the Cardoso administration to 499,000 per year since the mid-2000s (see Table 3).[10] The Gini coefficient fell from 0.57 in 1995 to 0.52 in 2008,[11] and poverty declined from 35 percent of households in 2001 to 21 percent in 2009,[12] while 32 million individuals (of a population of 193 million) entered the "middle class."[13] These gains have been concentrated in the poorer regions, with average real wages in the Northeast rising by 24 percent, twice the national figure. There has also been a striking convergence of incomes in the South and Center-West toward the higher levels in the Southeast, which includes São Paulo and Rio de Janeiro.

The neo-developmentalist strategy survived the onset of the global crisis and sustained the country's rapid recovery. The government responded to the crisis with aggressive countercyclical policies, including higher spending (public sector and Petrobrás investment peaked at 2.6 percent of GDP in 2009, and a mass housing program was introduced, costing 1.2 percent of GDP) and tax rebates worth 0.3 percent of GDP. The state-owned banks sharply increased the availability of credit to offset the contraction of loans by the private institutions (BNDES lending alone expanded by 3.3 percent of GDP in 2009), while the Central Bank cut interest rates, deployed US$72 billion to provide export credit and stabilize the exchange rate, and injected another 3.3 percent of GDP into the support of financial institutions. These policies were assisted by the further expansion of the social programs, which grew from 6.9 percent of GDP in 2002 to 8.6 percent in 2008 and 9.3 percent in 2009. The stabilization of aggregate demand raised the nominal fiscal deficit from 1.9 percent of GDP

TABLE 3
Sectoral Distribution of Employment

	Workers Employed (million, end of year)			*Employment Growth During Each Administration*			
Sector	*1994*	*2002*	*2010*	*FHC*	*%*	*Lula*	*%*
Manufacturing	5.5	5.5	8.2	0.0	0.9	2.6	47.8
Construction	1.1	1.1	2.4	0.0	0.1	1.3	116.2
Services	9.7	14.0	21.0	4.4	45.1	7.8	55.7
Public administration	5.1	6.8	8.3	1.7	33.1	1.5	22.8
Other	2.3	1.3	1.6	–1.1	–46.0	0.4	30.4
Total	23.7	28.7	42.3	5.0	21.2	13.7	47.6

Sources: Ministry of Labor and http://www.caged.gov.br.

at the end of 2008 to 4.1 percent in 2009, while the domestic public debt rose from 40.5 percent of GDP to 43.0 percent (Barbosa and Souza, 2010: 22–23). However, after an initial slowdown, the economy rebounded, and GDP is expected to grow by 7.5 percent in 2010—faster than at any time since the mid-1980s.

Lula's second administration also pursued an aggressive foreign policy. Brazilian diplomats have sought to counterbalance U.S. influence in South America and support the global expansion of Brazilian capital.[14] They led the effort to sink the U.S.-sponsored Free Trade Area of the Americas, which was supported by the neoliberal fraction of the bourgeoisie (and the PSDB), and Brazil has shored up the so-called pink-wave administrations in Argentina, Bolivia, Ecuador, Paraguay, and Venezuela (see Lievesley and Ludlam, 2009). In line with this strategy of global projection and support for domestic capital, Brazil opened 40 new embassies and deftly explored the U.S. difficulty in maintaining its global hegemony in the wake of the invasion of Iraq and the ongoing global crisis. This strategy has been supported by Brazil's economic power and its peaceful image: the country has a large and diversified economy, but its armed forces are weak; it has no military tensions with its neighbors and is constitutionally prohibited from building or storing nuclear weapons. Since 2008, when the G-7 was compelled to seek G-20 support to manage the global crisis, Brazilian diplomacy has positioned itself strategically to represent other developing countries. This has spilled over into the international climate-change negotiations, and Brazil even attempted, together with Turkey, to broker a deal to resolve the dispute over Iran's nuclear policy. Although some of these initiatives failed, they have signaled Brazil's emergence as a diplomatic power.

CHANGES IN THE STATE

This policy mix was very popular in the country, and it largely restored Lula's base of support among the organized and unorganized workers, national capitalism, and some sectors of the oligarchy. After eight years in government, national opinion polls showed that more than 80 percent of the voters considered Lula's government "excellent" or "good" while only 4 percent

considered it "bad" or "very bad." In the poorer regions, the positive responses exceeded 90 percent. Despite these strengths, Lula's popularity was heavily skewed, and his government remained isolated from large swathes of the middle classes and from the associated and dependent fraction of capital.

Throughout his career and especially since 2005, Lula was vilified by the right-wing media[15] and by the traditional (upper-) middle classes, who disparaged his "populist" and trade union roots and lack of formal education. They ridiculed his missing finger, lost in a work accident, and laughed at his ungrammatical Portuguese. The media measured Lula's government against very different standards from those applied to its bourgeois predecessors. This hatred was *not* because of narrow economic concerns: Lula insisted, probably rightly, that the elite had never made as much money as they did during his government. These fractions of the elite had two irresolvable objections to his administration.

First, they resented the loss of privileges associated with the expansion of citizenship. Redistribution of income, however marginal, lifted millions from absolute poverty and into the "middle class." Consumer credit helped many poor Brazilians to visit shopping centers, travel by air, frequent supermarkets, and buy automobiles. Brazilian roads and airports are clogged, and their previous users complain bitterly about the lack of space to accommodate everyone. These groups are equally dissatisfied with their loss of *political* prominence and the realization that they have become unable to drive Brazilian politics (see Singer, 2009).

Second, the nationalization of the social movements changed the Brazilian state. For the first time, poor citizens could recognize themselves in the bureaucracy and relate to friends and comrades who had become "important" in Brasília. These personnel changes, backed up by the policy shifts since 2007, increased the legitimacy of the state and supported the claim of the poor to a larger share of the products of their labor. These changes are evident on the ground. This does not necessarily amount to *collective* action, and in some cases it is inimical to it, but the affirmation of citizenship is centrally important for a democracy. These changes have been called a "democratic revolution" by some left-wing analysts (see, e.g., Wu, 2010). This is an exaggeration, but it illustrates the significance of the new relationship between citizens and the state.

The achievements of Lula's administration are in no way revolutionary, but they are real enough. Some of them remain limited or are deeply problematic for the left. For example, the liberalization of trade and capital flows and the neoliberal economic policies transformed the country's economic base in the 1990s. Domestic capital became much more closely integrated with foreign capital; thousands of companies closed down because of foreign competition, were purchased by foreign firms, or became assembly platforms processing imported inputs for sale in global markets. Other firms upgraded technologically and survived, but only at the expense of tens of thousands of skilled jobs (see OIT, 1999). The bourgeoisie remains deeply divided about these processes, but most capitalists have adjusted to these new modalities of global integration, and a large number of firms (including Odebrecht [construction], Ambev [beverages], Gerdau [steel], and Friboi [processed foods]) are now expanding abroad. However, the (re)integration of Brazil's economic base and the internalization of additional links of strategic value chains would require

more aggressive industrial policies than those which the administration has been either able or willing to consider. Problems of a different order are associated with the government's social programs, which have improved the distribution of income despite the government's failure to redistribute productive assets. Subsidies to private universities have expanded the opportunities available to poor students, but they have been contested by many left-wing academics and students. Finally, government policies on environmental protection and support for indigenous communities have achieved positive results, but they have been challenged by several NGOs as either token or counterproductive.

Such progress is clearly insufficient to satisfy the distributive and democratic aims of the left. Brazil remains one of the most unequal countries in the world, and more could have been achieved in eight years. However, the obstacles faced by Lula's government suggest that a more ambitious agenda would have been feasible only through the mobilization of the working class to confront the traditional elites and the aggressive deployment of public resources to fund faster welfare gains and deliver strategic investments. These destabilizing options were never considered by the Lula administration, which chose a gradualist strategy backed up by minimal legislative and regulatory changes. Despite his reluctance to break with neoliberalism, Lula pursued a neo-developmentalist program bringing together the organized workers and a sizable fraction of domestic capital, and his administration enjoyed the support of the vast majority of the poor.

In this light, *the 2010 elections imposed a choice between two political, economic, and social projects and two visions of the Brazilian state*. Neither was revolutionary, anticapitalist, or even unambiguously anti-neoliberal, but they were supported by strikingly different social alliances. One was about broader-based economic growth, the expansion of citizenship, continuing (if intrinsically limited) redistributional gains, and the incremental democratization of the state, while the other was about the renewal of elite control of the state, economy, and society and the promotion of neoliberal dependent development.

THE ELECTIONS

The first phase of the presidential campaign, between July and September 2010, focused primarily on welfare and national development policies. The main opposition candidate, São Paulo governor José Serra (PSDB), attempted to balance the conflicting imperatives of recognizing Lula's overwhelming popularity, reflecting Serra's political profile, and holding together a right-wing coalition of internationalized capital, right-wing oligarchs, the traditional elite, and the upper middle classes.[16] Serra is a development economist turned center-right politician who was exiled during Brazil's military dictatorship. Regardless of the protests of his coalition, Serra's campaign supported activist industrial policies and even same-sex marriage, but this strategy failed. Faced with two candidates overtly supporting the government, the poorer voters flocked to Lula's candidate, Dilma Rousseff, and her 10-party center-left coalition. Support for Serra in the opinion polls tumbled, and Dilma was poised to win a decisive victory in the first round.[17]

Dilma Rousseff rose through the ranks of the state administration in Rio Grande do Sul, initially in the Partido Democrático Trabalhista (Democratic Labor Party—PDT) and later in the PT. She was appointed minister of energy in 2002. Her ministry introduced the "Light for All" program of mass electrification and developed a new regulatory regime for the sector after the combination of privatizations with underinvestment under Cardoso forced the government to ration electricity in 2001. When Lula's government was decapitated by the corruption scandals in 2005, Dilma was promoted to chief of staff. She had a leading role in articulating the government's industrial policy and designing the exploration contracts for the new "pre-salt" oil reserves, which may turn Brazil into a major exporter of refined petroleum products. These contracts were heavily criticized by the press and the political right for being costly, "unduly" restricting the operations of the oil majors, barring the export of crude oil, "arbitrarily" vesting ownership of the reserves in the state, and "needlessly" imposing a leading role for Petrobras in all prospecting areas.

Facing a humiliating defeat, Serra switched tactics. His campaign, which was openly supported by the media, adopted a stridently right-wing rhetoric focusing on three issues. First, it accused Lula of promoting the "Venezuelization of Brazil" through his personal domination of the state, attempting to impose his own successor, and wishing to abolish press freedom.[18] Second, the government was, again, accused of corruption, leading to the dismissal of one minister. Third, Dilma Rousseff was subjected to fearsome personal attacks in the media, in religious services, and through anonymous pamphlets and billboards. She was accused of involvement in corruption and of being against religion, for abortion, a homosexual, and a terrorist.[19] Scabrous rumors suggested that she had stated that "not even Jesus could make her lose" (a calculated affront to Christian voters), and her "former lover" was "suddenly" discovered and paraded around, loudly demanding an allowance "like any other abandoned woman."[20]

Donations poured into Serra's coffers, while the press slyly promoted a "third force" to "further the debate in the second round": in the last weeks before the election, they anointed the former environment minister, Marina Silva—a candidate everyone knew could not win but who could pull undecided voters away from Dilma. Dilma's support in the opinion polls fell marginally, while Serra's stagnated and Marina's climbed rapidly. Dilma finished the first round, on October 3, with 47 percent of the votes, against Serra's 33 percent and Marina's 19 percent. Four candidates to the left of the PT coalition together polled 0.9 percent (radical left candidates had scored 9.5 percent of the vote in 2006). The voting pattern was clear: Dilma won in the poorer states of the North and Northeast and in most of the Southeast (except São Paulo state) and lost in the richer Southern states. Within each state, her vote was heavily concentrated in the poorer neighborhoods and among the least-educated voters (see, e.g., *Folha de S. Paulo,* October 22, 2010). Serra won in São Paulo and in the richer states in the "arch of agribusiness" across the Center-West and among the wealthier and better-educated voters.

Although the elite onslaught prevented Dilma's victory in the first round, the government coalition did well in the elections. It won 17 out of 27 state governments, 74 percent of the Senate, and 68 percent of the Chamber of Deputies. However, these numbers are largely notional, because only one-third

of seats is held by the left parties in the coalition (the PT, the Partido Comunista do Brazil, the PDT, and the Partido Socialista Brasileiro).[21] With 22 ill-tempered and poorly disciplined parties in Congress, painstaking negotiations will become inevitable whenever there is a difficult vote. In the second round, on October 31, the government alliance, supported by the vast majority of the social movements, the organized left, the unorganized workers, and a large section of national capital, won another 5 state governments, and Dilma reached 56 percent of the vote against Serra's 44 percent.

CONCLUSION

Dilma Rousseff will face three difficult tasks in government. First, she needs to keep her coalition together while building upon the developmental and redistributive policies she has inherited in order to sustain her base of support. This is a difficult challenge, since the global economic environment is likely to remain unfavorable. Second, she must protect herself from attacks by the elite; however, she lacks Lula's charisma, track record, and popular roots, and she has the additional vulnerability, in the political context of contemporary Brazil, of being a woman. Third, Lula never attempted to dismantle the right-wing media oligopoly, because this was bound to generate severe political instability. Nevertheless, this nettle must be grasped in order to expand the government's policy space and allow democracy to flourish. Two secondary challenges are bringing together a strong and cohesive team that can represent both the coalition supporting her government and Lula's political role. Lula is likely to withdraw from domestic politics at least temporarily (postponing as long as possible the decision whether to run for the presidency in 2014); in the meantime, he could devote his energies to "global" initiatives, for example, around South-South cooperation.

Dilma's victory does not signal the start of a socialist transformation in Brazil. Her government is not even committed to dismantling neoliberalism and building a democratic system of accumulation; it is also supported by an unwieldy coalition. Nevertheless, it is enormously important for the left to support her administration. Despite the ongoing neoliberal offensive in several countries, Brazil demonstrates the viability of alternative policies, and it supports and offers a demonstration effect for more ambitious experiments elsewhere in Latin America. Further advances are possible, but they depend on the ability of the mass organizations and the popular movement to articulate a plausible alternative to neoliberalism and to push the government to deploy its legitimacy and resources in support of this project. *These pressures must emerge from below*. The Brazilian state lacks the instruments and political will to go far beyond what it has already achieved: the alternative to mass mobilization is the consolidation of a national capitalist alternative including a bland social democratic consensus offering diminishing returns for the majority.

One of the drivers of the cooperation between the government and the social movements around a progressive program might be the tension between the mildly nationalist and distributive policies that the government is likely to choose and the demands of the constellation of forces from which it must seek continuing support. Currently, these are heavily determined by economic and

social status: bluntly speaking, the "traditional" rich stand to one side and the poor to the other, and the national bourgeoisie depends on the support of the working class to control the country's foreign and economic policies. This cleavage poses clear dangers to Brazil's political stability, but it also harbors the greatest potential for the advancement of a left program since the democratic transition in the mid-1980s.

NOTES

1. The concepts of "national" (internal) bourgeoisie and "comprador" (neoliberal) bourgeoisie are developed by Boito (2010). This distinction draws upon the relationship between these fractions of capital and global capital(ism): the former seeks independent opportunities for accumulation in Brazil and abroad *on its own terms* and with state support (e.g., trade and financial restrictions and preferential financial arrangements). It does *not* advocate autarchy or even an import-substitution strategy, and it is not narrowly "nationalistic." In contrast, the latter is materially and ideologically committed to a strategy of associated and dependent accumulation predicated upon (neo)liberal policies, especially free trade and financial flows under a U.S.-led institutional umbrella. There is no necessary relationship between these fractions of capital and their sectoral investments (manufacturing, construction, banking, insurance, agribusiness, and so on) or their political profiles (neither of them is necessarily more "progressive"). Historically, both fractions have been heavily represented in government, but the neoliberal bourgeoisie was politically dominant during the Collor (1990–1992) administration while the national bourgeoisie was relatively more influential under Lula, especially after 2006.

2. The São Paulo Confederation of Industry opposed Cardoso's policies and supported mass demonstrations and even a workers' general strike in 1996, demanding a developmental policy shift (see Boito, 2010).

3. Lula's center-left alliance, including the Partido dos Trabalhadores (PT), the Partido Socialista Brasileiro (PSB), the Partido Liberal (PL), the Partido Comunista do Brasil (PCdoB), the Partido Popular Socialista (PPS), the Partido Verde (PV), and the Partido Democrático Trabalhista (PDT), elected 35 percent of the federal deputies and 31 percent of senators. The centrist and right-wing Partido do Movimento Democrático Brasileiro (PMDB), the Partido Trabalhista Brasileiro (PTB), and the Partido Progressista (PP) joined the coalition in 2003, while the PDT left. The government could count notionally on 72 percent of deputies and 60 percent of senators.

4. There is a vast left literature criticizing Lula's first administration; for a taster, in addition to the works cited previously, see Oliveira (2006) and Paulani (2003).

5. Open unemployment peaked at 12.7 percent in 2003 and fell gradually to 9.2 percent in 2010; the percentage of discouraged workers also fell in this period from 2.1 to 1.0 percent of the labor force (http://www.ipeadata.gov.br).

6. "Among Brazilians with higher education, the rejection of Lula jumped 16 percentage points, rising from 24 percent in August to 40 percent today" (*Folha de S. Paulo*, October 23, 2005, quoted in Singer, 2009: 84).

7. The theoretical underpinnings of "neo-developmentalism" have been discussed extensively in the journal *Revista de Economia Política*.

8. This event signaled a structural shift in Brazil's balance-of-payments constraint: the country had overcome its traditional external vulnerability in the context of the ongoing shift in global liquidity and the erosion of U.S. hegemony. Currently, domestic capital accumulation has become structurally less vulnerable to temporary fluctuations in global liquidity.

9. Monthly employment survey, http://www.ibge.gov.br.

10. Approximately 5 million formal jobs were created during the Cardoso administration and nearly 14 million during Lula's. During this entire period the country needed to create 2 million new jobs annually simply to absorb its growing workforce.

11. See Barbosa and Souza (2010: 39) and http://www.ibge.gov.br/home/estatistica/populacao/trabalhoerendimento/pnad2005/sintese/tab1_5_4.pdf.

12. National Household Sample Survey, http://www.ibge.gov.br.

13. The definitions of "poor" and "middle-class" are based on income data and elaborated by the independent Getúlio Vargas Foundation. http://cps/fgv.br.

14. The creation of the Union of South American Nations (UNASUL), as the germ of a future common market, is symptomatic of Brazil's diplomatic and commercial focus on South America rather than on Latin America as a whole. In contrast, Mexico and the small Central American republics are perceived to be too close to the United States to be amenable to the influence of Brazil or MERCOSUR.

15. There are four national newspapers in Brazil, each one in the hands of a "traditional" family based in the Southeast. All of them vociferously oppose the government. The commercial TV networks are also aligned with the opposition.

16. For an illustration of the views of international capital, see the editorial in the *Financial Times*, October 27, 2010.

17. A second round with two candidates takes place if no candidate obtains more than half of the votes in the first.

18. This accusation is baseless, and press freedom remains protected by solid constitutional guarantees. Symptomatically, former PT president José Dirceu was asked in a campaign debate whether there was "too much press freedom" in Brazil. He responded that no one who has lived through a dictatorship could believe in "excess" freedom. All the main newspaper headlines immediately reported that Dirceu had stated that "there is too much press freedom in Brazil" (see, e.g., one of the original reports in http://www1.folha.uol.com.br/fsp/opiniao/fz1909201001.htm and the subsequent apology in http://www1.folha.uol.com.br/fsp/opiniao/fz3009201009.htm).

19. Dilma joined a left-wing urban guerrilla organization during the bleakest years of the military dictatorship, in the late 1960s; she was arrested in 1970, tortured for three weeks, and imprisoned for three years.

20. See, e.g., http://www.youtube.com/watch?v=rrWFmbvc4YY and http://www.youtube.com/watch?v=cu29qqCJCF4.

21. The left "core" of the government coalition has 165 seats (out of 513) in the Chamber of Deputies and 23 in the Senate (out of 81); its "outer circle" of center-right allies has 186 deputies and 37 senators. The left-wing opposition (the Partido do Socialismo e Liberdade [PSOL]) has 3 deputies and 2 senators, while the right-wing opposition (the Partido Social Democrático Brasileiro [PSDB] and the so-called Democrats) has 108 deputies and 19 senators. The remaining 51 seats in the Chamber of Deputies are held by "undecided" or wavering parties.

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